THE
Consumers' Gas
COMPANY

123rd ANNUAL REPORT

FOR THE YEAR ENDED

SEPTEMBER 30, 1971

COMMUNE BONUM

FOR THE GOOD OF THE COMMUNITY

"Ecology" Paper

Almost 50% of the fibre in the paper used inside this Annual Report is manufactured from "used paper" which has been de-inked, recycled and processed in a Canadian mill into this excellent printing surface. The selection of this paper was made by your Company as evidence of its interest in conserving natural resources and protecting the ecology. As one of the first large Canadian companies to use "ecology" paper in this way, Consumers' Gas confirms the leadership and company philosophy expressed in our corporate seal, "Commune Bonum", which, for more than 123 years, has continued as a corporate objective, "for the good of the community".

Highlights

123rd ANNUAL REPORT
for the year ended September 30, 1971
The Consumers' Gas Company
19 Toronto Street, Toronto

	1971	1970	% Increase
GAS SALES REVENUES			
Residential	**$67,325,000**	$65,177,000	3
Commercial	**$46,406,000**	$40,041,000	16
Industrial and other	**$44,549,000**	$39,599,000	13
GAS SALES—MCF			
Residential	**53,465,000**	51,568,000	4
Commercial	**54,651,000**	46,782,000	17
Industrial and other	**70,548,000**	63,110,000	12
NUMBER OF ACTIVE CUSTOMERS (Year End)			
Residential	**375,275**	363,365	3
Commercial	**30,755**	28,428	8
Industrial and other	**5,176**	4,876	6
AVERAGE USE PER RESIDENTIAL CUSTOMER—MCF	**141.7**	141.0	
COST TO CUSTOMERS AVERAGE REVENUE PER MCF			
Residential	**$1.26**	$1.26	
Commercial	**$ .85**	$ .86	
Industrial	**$ .63**	$ .63	
NET INCOME FOR THE YEAR	**$21,561,000**	$19,792,000	9
BASIC EARNINGS PER COMMON SHARE—NET INCOME	**$1.18**	$1.08	9

Important changes in senior organization structure

Net income reached all time high

Increases in gas sales in all market categories

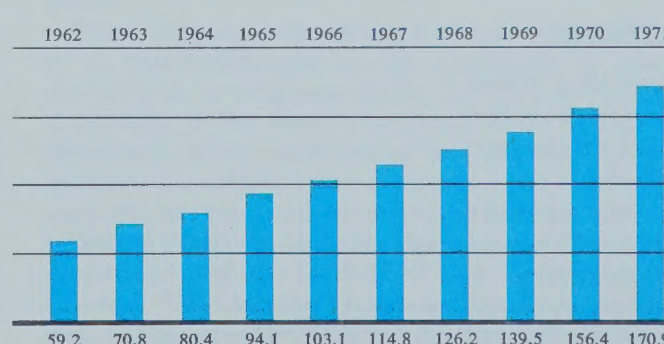
Agreed to purchase a controlling interest in Cygnus Corporation thereby gaining effective control in Home Oil

$50,000,000 obtained through debenture issue

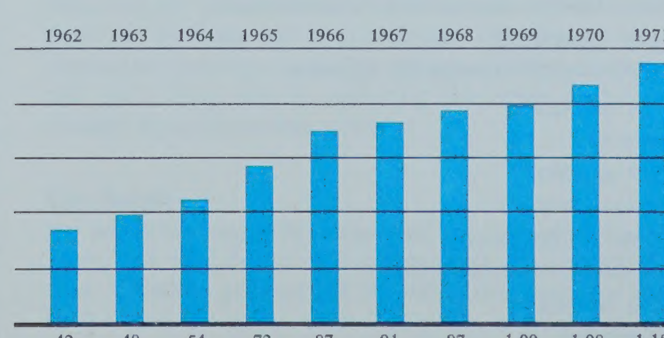
Facilities for delivery to Richard L. Hearn Generating Station complete

See pages 16-19 for a 10-year Financial and Operating Statistical Summary.

TOTAL REVENUE
$170,866,000



BASIC EARNINGS
PER COMMON SHARE
(after extraordinary items)
$1.18



The Consumers' Gas Company

Directors

OAKAH L JONES*
Chairman of the Board,
The Consumers' Gas Company
Cygnus Corporation Limited
Home Oil Company Limited
Director—Canada Permanent Companies
Director—Boiler Inspection and Insurance Company of Canada
Director—Rubbermaid (Canada) Limited
Chairman of the Board—Ontario Research Foundation

J. K. MACDONALD*
Chairman of the Board—Confederation Life Insurance Company
Director—Dominion Scottish Investment Limited
Director—Canada Permanent Companies

A. R. POYNTZ*
Chairman of the Board and Chief Executive Officer —The Imperial Life Assurance Company of Canada
Director—M.E.P.C. Canadian Properties Limited
Director—Impco Properties Limited
Director—The Investors Group

W. H. ZIMMERMAN, Q.C.
President—Commonwealth International Corporation Limited
President—Commonwealth International Leverage Fund Limited
Director—The Becker Milk Company Limited
Director—Scythes and Company Limited

HON. T. D'ARCY LEONARD, C.B.E., Q.C.*
Director—Canada Permanent Companies

J. C. McCARTHY
President—The Consumers' Gas Company
Director—Home Oil Company Limited
Director—The Toronto-Dominion Bank

R. H. CARLEY, Q.C.
Partner—Carley, Lech, Fitzpatrick & Ebbs, Solicitors
Director—Kesco Holdings Limited

NOAH TORNO, M.B.E.
President—Gramercy Holdings Limited
Director—Cemp Investments (Ontario) Limited
Director—The Canada Trust Company
Director—Cygnus Corporation Limited

J. D. GIBSON*
Chairman—Canadian Reinsurance and Canadian Reassurance Companies
Chairman—Eddy Match Company Limited
Director—The Imperial Life Assurance Company of Canada
Director—Harding Carpets Limited
Director—Home Oil Company Limited
Director—Steel Company of Canada Limited
Director—Bell Canada
Director—National Trust Company, Limited
Director—Moore Corporation
Chairman of the Board of Trustees—Queen's University
Member of the Ontario Economic Council

D. B. MANSUR, C.B.E.
Chairman of the Board—Kinross Mortgage Corporation
Chairman—Royal Insurance Group
Director—Guaranty Trust Company
Director—Markborough Properties Limited

A. G. S. GRIFFIN
President—Triarch Corporation Limited
Director—Cygnus Corporation Limited

H. E. LANGFORD, Q.C.
Chairman—Toronto Iron Works Limited
Director—The Dominion of Canada General Insurance Company
Director—Ontario Hospital Association
Director—United Accumulative Fund Limited
Director—Home Oil Company Limited
Director—Victoria and Grey Trust Company

G. W. CARPENTER
Executive Vice-President and General Manager—Utility Operations—The Consumers' Gas Company

F. W. HURST
Executive Vice-President and General Manager— Corporate, Finance and Non-Utility Operations— The Consumers' Gas Company
Director—Home Oil Company Limited

R. S. PADDON
Partner—Zimmerman & Winters, Solicitors

**Executive Committee*

Officers

OAKAH L JONES
Chairman of the Board

J. C. McCARTHY
President

G. W. CARPENTER
Executive Vice-President and General Manager—Utility Operations

F. W. HURST
Executive Vice-President and General Manager— Corporate, Finance and Non-Utility Operations

W. M. KELLY
Senior Vice-President and Director of Marketing

E. S. HOWARD
Vice-President—Provincial Gas Operations

J. B. HASLAM
Secretary

J. F. GIBSON
Assistant Secretary

E. W. H. TREMAIN
Treasurer and Assistant Secretary

K. J. HARRY
Comptroller

R. L. GOODENOUGH
Regional Manager—Provincial Gas Operations

D. W. LINDSTEDT
General Manager, Eastern Area and Vice-President St. Lawrence Gas Company, Inc.

L. MASSÉ
President—Société Gazifère de Hull, Inc.

D. VIEN
Vice-President and Secretary, Société Gazifère de Hull, Inc.

W. C. CURRIER
General Manager, Société Gazifère de Hull, Inc.

H. J. FRANK
Chairman of the Board—St. Lawrence Gas Company, Inc.

W. F. BENSON
General Manager—St. Lawrence Gas Company, Inc.

Ottawa Executive Board
A. BETCHERMAN
OAKAH L JONES
ORIAN LOW, Q.C.

Report to the Shareholders

Your Company has had another successful year. Revenues of all types have increased, particularly gas sales to commercial and industrial users. Costs have also risen as the Company has been unable to escape the inflationary trends affecting all business. However, net income reached an all-time high of $21,561,000 and basic earnings per common share $1.18.

A review of the activities of your Company for the past year must begin with the very important changes which have been made in our senior organization structure. As of April 5, 1971, Mr. J. C. McCarthy, who has held important executive positions with your Company since 1949, was appointed President. The operations of the Company were organized into two groups: the Utility Operation with responsibility vested in Mr. George W. Carpenter as Executive Vice-President and General Manager—Utility Operations, a senior executive since 1963; the Finance and Non-Utility Operations under the responsibility of Mr. F. Warren Hurst, Executive Vice-President and General Manager—Corporate, Finance and Non-Utility Operations, who has been a senior executive since 1955. All three of these men were elected to fill vacancies on the Board of Directors of your Company. Mr. William M. Kelly was appointed Senior Vice-President and Director of Marketing and also maintains responsibility for overseas consulting operations. Mr. Oakah L Jones continues as Chairman of the Board and Chief Executive Officer of Consumers' Gas, as well as having become Chairman of the Board of Cygnus Corporation Limited and Home Oil Company Limited during the year.

It was with regret that we learned of the death during the year of Mr. W. B. C. Burgoyne who had served as a Director of your Company for ten years. His counsel has been and will be missed by your Board.

Miss Mabel Geary who has been a Director and Secretary and Assistant Treasurer since 1955 and an employee since 1927 is retiring from your Company with our thanks for her many years of tireless service. The good wishes of the Directors, management and staff are extended to her at this time.

Gas Utility System

The gas utility system remains the cornerstone of total operations, contributing over 95% of total revenues and comprising over 96% of all net assets. The utility experienced a satisfactory growth rate in 1971, revenues increasing 9% in 1971 as against 12% in 1970.

Gas Sales

The increases in gas sales which have been reported by your Company consistently over the last ten years are a result of the constant and imaginative efforts by sales people to ensure that natural gas continues to increase its share in the energy markets. Your sales force is working continually with government planners, community developers, commercial builders and individuals to make them more aware of the benefits of using natural gas supplied by The Consumers' Gas Company. Residential sales increased as a result of adding new single family dwellings to the system and converting heating systems in older single family dwellings from other sources of energy. Your Company looks to the commercial sales category, which includes residential multiple housing of more than six units, for significant expansion of gas sales in the areas served by your Company. More and more industrial plants are making the decision to convert their heating and processing to natural gas and this requires a constant effort on the part of our sales force to help the user to understand the substantial benefits of using natural gas.

Initial deliveries to the Richard L. Hearn Generating Station were begun in August, but full gas deliveries are not expected to be made until November 1971. Volumes of gas sales for this electric power generation will be very large; such a sale not only significantly reduces pollutants otherwise emitted from some electric power generation, but also assists in improving your Company's pipeline system and contributes toward general overheads of the gas utility operation.

Application has been made by a subsidiary, St. Lawrence Gas Company Inc. for approval of a change in capitalization converting advances from Consumers' Gas into common stock or long-term debt and for permission to increase rates to offset changes in foreign exchange rates and other rising costs. If the applications are granted by the New York State Public Service Commission, revenues would increase by approximately $700,000 per annum. Application for more immediate relief by way of an interim adjustment was delayed by the wage and price freeze in the United States.

Your Company believes that it has a responsibility to its shareholders and to the community to keep abreast with, develop and employ the most up to date technology in the fields of air and noise pollution abatement, energy conservation and gas distribution facilities. To achieve these objectives your Company supports research and development projects at the Canadian Gas Association, the Ontario Research Foundation and the Institute of Gas Technology in Chicago. The Company is also continuing to use six dual fuelled vehicles using natural gas and gasoline, the general use of which would meaningfully assist in reducing air pollution from automobile exhaust. To date the findings are encouraging. Efforts are continuing to develop a noiseless pavement breaker which will go a long way to reducing the noise pollution created by construction activity.

Gas Supply

An adequate long term supply of gas, at a reasonable price, is a vital factor in the operation of Consumers' Gas. With the prospect of increased demands for gas in the area served by your Company, a great deal of

time and effort has been spent to ensure that requirements will be met and at the most advantageous price to all concerned. This year the cost of the gas sold by your Company was $85,413,000 for the purchase and storing of the quantities of gas required to meet the growing sales demands. This major item of expense amounted to approximately 54% of the total gas revenue.

Your Company continues to be actively involved in the current proceedings before the National Energy Board regarding the application of the major supplier of gas, TransCanada PipeLines, to increase its rates, the outcome of which will affect the cost of gas and its supply. While your Company is concerned that the cost of its gas purchases must be as low as possible, it is equally concerned that the financial position of the supplier be maintained at a level which will enable it to provide the necessary gas supplies to meet the increasing market requirements.

As announced in the interim report of June 30, 1971, your Company, Union Gas Company of Canada, Limited, and Northern & Central Gas Corporation Limited reached an agreement with TransCanada PipeLines which will enable TransCanada to proceed with the major construction programme required to deliver the supply of gas necessary for these companies' projected requirements for the 1972-1973 season.

Under the terms of this agreement, the three distributing companies will pay TransCanada an additional 2.1¢ per Mcf for all volumes delivered beginning January 1, 1972 until such time as the National Energy Board in Ottawa has issued its final decision in the rate case currently in progress. If the increase is in operation for a full calendar year, the 2.1¢ per Mcf would amount to an estimated increase in the cost of gas, before taxes, of $5,040,000 to your Company. It is your Company's present intention, in accordance with an accounting order received from the Ontario Energy Board, to defer this supplemental cost of gas supply in its accounts pending further consideration by that Board of future gas rates which your Company can charge in Ontario.

While your Company always regrets an increase in operating costs, in this case, it believes that the agreement worked out was necessary in the best short and long term interests of all concerned, the public, our customers, investors and employees, as it will maintain necessary supplies of gas from western Canada at prices lower than would have been the case had construction delays been necessary.

It is the considered opinion of your officers that significant discoveries of natural gas will continue to be made in western Canada, providing sufficient economic incentives are provided to encourage the necessary exploration, drilling and development in this area.

Tecumseh Gas Storage Limited continues to play an important role in minimizing over-all gas costs by enabling your Company to purchase its annual requirements from TransCanada at the most advantageous rates. Tecumseh is owned 50% by Imperial Oil Limited and 50% by Consumers'. The operation of the Tecumseh storage facilities, previously the responsibility of Imperial, as of July 1, 1971, became the responsibility of Consumers'.

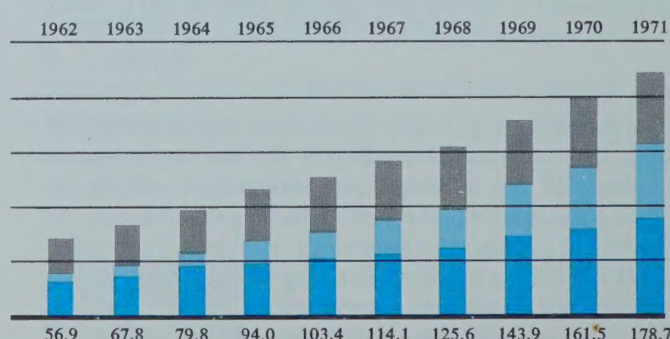
Related Activities

For some time, it has been apparent to your officers that there would be an increasing need for non-regulated earnings to supplement the regulated earnings from utility operations if shareholder returns were to continue their appropriate growth and the capital raising capabilities of the Company be thereby improved for the benefit of present and future customers as well as employees and shareholders.

In approaching investments to produce non-regulated earnings, it was decided to concentrate new investment in fields where the Company personnel already had gained experience and skills or to explore new concepts arising from such experience. Among the more significant activities were the oil and gas exploration plans (including some in Alberta and the James Bay areas as well as under Lake Erie), the drilling services on water or on land, the computer related group of companies and the land and housing activities. Several of these activities are already profitable, such as land development at the Mont Bleu subdivision in Hull, Quebec and drilling activities by

THE CONSUMERS' GAS COMPANY
AND SUBSIDIARIES
Gas Sales (M.M.C.F.) by types of customer

Residential
Commercial
Industrial and Other



Underwater Gas Developers Limited while most of the others are not yet contributors to consolidated income.

Natural Resource Activities
This year, the pace of activity in the natural resource field was stepped up significantly by the agreement to purchase a controlling interest in Cygnus Corporation Limited and thereby an effective controlling interest in Home Oil Company Limited together with a recent purchase of a further direct interest in Home Oil. Altogether, over $40,000,000 has now been invested in natural resource activities.

Cygnus Corporation and Home Oil
On April 22, 1971 an announcement was made indicating that Consumers' Gas had agreed to purchase 52.5% of the outstanding voting shares of Cygnus Corporation Limited which in turn owns 43.5% of the voting shares of Home Oil Company Limited. On May 6, 1971 your Company sent a letter to all shareholders setting out the details of the transactions, a summary of the operations of both Cygnus Corporation and Home Oil and the benefits of the transaction to Consumers' Gas.

The acquisition of a major holding in Home Oil through this agreement represents for Consumers' Gas a logical extension of its participation in the development of Canada's oil and gas activities both in Canada and elsewhere. Your Directors believe that the purchase of an interest in Cygnus which has effective control of Home Oil will offer an opportunity for improving the rate of growth in earnings per share of Consumers' Gas, thereby improving its ability to attract capital required for expansion of gas service and other uses. In addition, the companies should receive mutual benefits through joint consultation and operations in drilling programmes, development programmes and other areas involving services common to each.

To record the investment in and earnings from Cygnus (and it in turn from Home Oil) the equity method of accounting has been used. Under this method, the Consumers' Gas share of earnings of these companies is recorded as income. These earnings, less cash dividends received, are added to the investment each year so that the growth of the stated investment will equal the appropriate share of the growth in the underlying book values. However, at the time of acquisition, goodwill of $12,267,000, representing the excess of the investment over equity in book value of underlying net assets was eliminated by a charge against reinvested earnings, in order that the recorded value of the new investment be consistent with the recorded value of other assets that do not include a goodwill element.

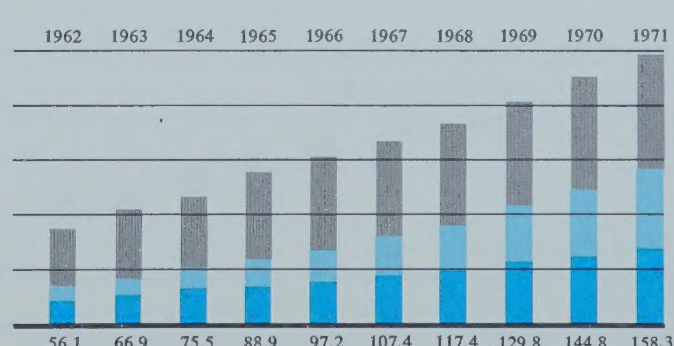
Subsequent to the September 30, 1971 financial statements in this report, Home Oil has made tentative arrangements to re-finance its short term borrowing. As one of the three parts in the re-financing programme, Consumers' Gas has agreed to purchase 275,506 Class B (voting) shares of Home Oil held by two of its subsidiaries. These shares are to be purchased at a price per share of $33.10 (the average price based on recent transactions on the Toronto Stock Exchange) for a total consideration of $9,119,249. The other two parts of Home Oil's refinancing programme involve a proposed convertible debenture issue and the sale of approximately $3,400,000 of the marketable securities held by it.

This purchase of Home Oil voting shares, together with the Cygnus shares already on deposit under the voting trust agreement, represent a voting control of approximately 65% of the shares that can be voted in Cygnus and over 49% of the shares that can be voted in Home Oil. The share of earnings accruing to Consumers' Gas will be approximately 35% of the earnings of Cygnus other than from Home Oil and approximately 9% of the earnings of Home Oil. Consumers' Gas continues to hold a right of first refusal on an additional 390,366 Class A and Class B shares of Home Oil owned by Mr. R. A. Brown Jr. which, if required, could increase Consumers' Gas share of Home Oil earnings to approximately 14%.

In accordance with the agreement for acquisition of the controlling interest, three of your Directors have been elected to the Board of Directors of Cygnus and five of your Directors elected to the Board of Home Oil. Mr. Oakah L Jones has been elected Chairman of the Board both of Cygnus and of Home Oil.

THE CONSUMERS' GAS COMPANY
AND SUBSIDIARIES
Gas Sales Revenue ($000,000)

Residential
Commercial
Industrial and Other



Company Gas and Oil Exploration

Your Company is continuing to expand its own activities to find and produce natural gas from its Lake Erie acreage and the Hudson and James Bay areas both to provide gas sources closer to the Company's service areas than western Canada and to increase non-regulated earnings. In this regard $3,200,000 was spent on exploration and development by your Company during the past year.

This summer's drilling in the Lake Erie acreage has again been encouraging with 20 of 41 wells drilled finding economically recoverable gas reserves. In northern Ontario near James Bay, a project with Anthony Gas & Oil Explorations Limited and Mid Eastern Oil and Gas Limited did not complete the drilling of the first well before spring break-up, but it is expected that drilling will commence again as soon as the ground freezes. Underwater Gas Developers Limited has been assisting with this drilling task as well as carrying out other activities under contract in Nova Scotia and Quebec.

As announced previously, an agreement has been reached to spend $2,000,000 over the next two years for gas and oil exploration in return for which Consumers' Gas will receive approximately 48% interest in Sogepet Limited which holds an interest under licenses in the Hudson Bay and James Bay Lowland regions; a further 4% interest in Sogepet Limited is available through an option to purchase additional shares.

Computer and Related Activities

Your Company's activities in the fields of computer utilization, communications, and associated business systems are growing stronger. You will recall from earlier annual reports that the purpose of these activities is to capitalize on skills and knowledge already gained in the utility operations which include the processing of over 400,000 bills each month. Most such new ventures take several years to become net contributors to the over-all earnings picture. Such is the case for the computer group including Consumers' Computer Limited, The Harrow Group Limited, Business Innovations Limited and the computer terminal company, T-Scan Limited.

Consumers' Computer Limited with the help of The Harrow Group Limited has become a recognized computer service company in the business community and Consumers' plans to expand its computer significantly in early 1972. The number of customers using Consumers' computer facilities is increasing at a satisfactory rate and a recent joint venture with Setak Computer Services Limited helped to add to the workload of the computer. Through Business Innovations Limited the Company is expanding its services to insurance agents and is working towards a real-time system utilizing T-Scan terminals for other types of businesses with a target date of operations early in 1972.

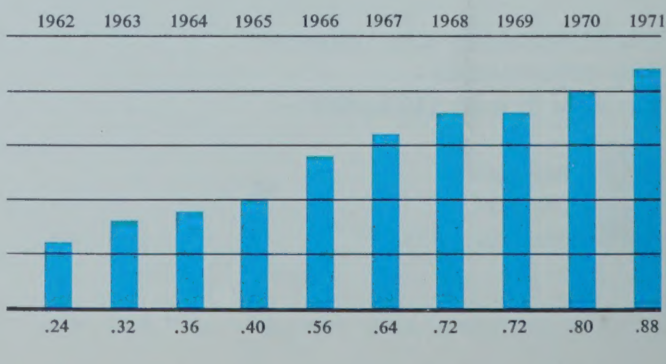
The market development for the mark-sensed card input and output terminal developed by T-Scan has been slower than originally anticipated as the finalization of financing arrangements including a partial loan insurance from the federal government's General Adjustment Assistance Programme is taking more time than expected. T-Scan made a recent sale of terminals to the Sao Paulo Stock Exchange in Brazil which provides an ideal application for the terminals in brokerage and quotation services.

Real Estate and Housing Activities

As nearly all new housing developments in the Consumers' Gas area are being supplied by natural gas, the Company has the opportunity to become aware of changing trends in housing patterns. Here again management recognizes an opportunity where the knowledge acquired in the gas utility operation can be put to good use on ventures in non-regulated fields.

Consumers' Realty Limited is presently in the position of managing company-owned housing units and other properties earning rental income. Also, it is actively involved in land developments in Ottawa, Hull and Whitby. It continues to provide mortgage financing to assist land developers through providing interim funds to developers and through second mortgages to purchasers of units which utilize natural gas.

THE CONSUMERS' GAS COMPANY
Current Annual Dividend Rate
per Common Share $.88



Financial Review

Revenues increased in total by 9% from $156,390,000 in 1970 to $170,866,000 in 1971. Gas sales revenue accounted for the bulk of this increase, increasing by 9% or $13,463,000. As compared to the year before, the annual increase in gas sales was smaller because the weather was slightly warmer; 7769 degree days in 1971 as against 8065 in 1970 (the term degree day deficiency is defined on page 19).

The costs of operating your Company continue to increase. Operation and maintenance costs increased by $2,645,000 or 11%. In large measure this is a result of inflation although it also reflects the increasing scale of operations. The costs of wages for over 2,300 employees, of borrowed money, of municipal taxes and generally of keeping pace with the growth of your Company have all increased. Efforts continue to keep these costs to an absolute minimum. Although it is difficult to offset inflationary pressures with other economies, your management and staff will continue their efforts in this regard.

Your Company's distribution system must, however continue to expand its service areas and be kept up to date by maintaining and replacing the existing facilities on a regular basis. Capital expenditures this year amounted to $43,569,000 including a large amount for facilities for supplying gas to the Richard L. Hearn electricity generating station. Future requirements of approximately $35 million in capital expenditures can be foreseen annually in order to maintain the growth in sales and continually update the distribution system.

Two changes in accounting practices have been applied to the preparation of the financial statements this year in order to provide shareholders with a more complete picture of operations. The combined effect of these changes in accounting practice, applied retroactively, was to decrease reported earnings by $276,000 in 1971 and $371,000 in 1970 from those which would have been reported had the practice not been changed.

First, the earnings of 50% owned companies Tecumseh Gas Storage Limited, the Harrow Group Limited and Hunt Club Real Estates Ltd. are now accounted for on the same equity basis as used for Cygnus, thereby taking into income Consumers' Gas portion of these companies' earnings and showing the investment at the book value of the underlying net assets.

Second, the Company adopted the full cost method and tax allocation basis of accounting for its gas and oil exploration and development activities. These changes are designed to better match exploration and development costs to revenue and to eliminate any fluctuations in income that might occur from this expanding programme due to differences in timing of deductions for income and tax purposes. The full cost method of accounting capitalizes all costs of exploring for and developing gas and oil reserves including geological and geophysical expense, costs of drilling both productive and non-productive wells and related overhead expenses. These costs are depleted using the unit of production method based on estimated recoverable reserves.

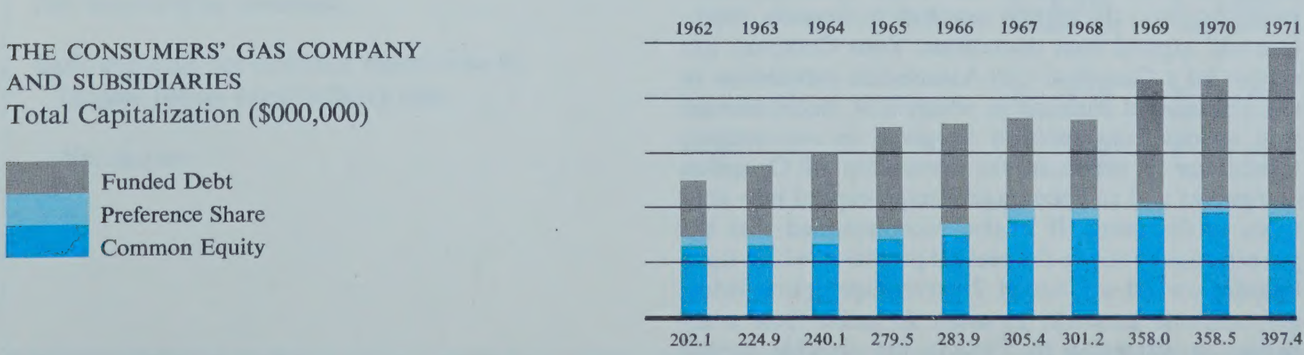
The net income for the year amounted to $21,561,000 representing an increase of 9% over the previous year. This represents basic earnings per common share of $1.18 per share as against $1.08 after extraordinary item as restated for 1970. Dividends on common shares were paid during the year at the rate of 20¢ quarterly per share. In September 1971, the quarterly dividend rate was increased to 22¢ quarterly, increasing slightly the proportion of earnings paid in dividends.

In February 1971 the Company issued $50,000,000 in new twenty year debentures with interest payable at the rate of 8⅛%. In addition the Company is an active borrower on the short term market. Interest rates were very high for most of the year under review but more recently are somewhat lower. It is likely that additional long term borrowings will have to be arranged during the present fiscal year but the timing will depend on financial markets and the state of the country's economy as a whole. Long term financing was also arranged for Tecumseh Gas Storage Limited during the year by a $6,000,000 issue of 8½% debentures.

Personnel and Labour Relations

On February 19, 1971, after a strike of sixteen weeks' duration by members of Local 161 of the International Chemical Workers Union, a new labour agreement was

THE CONSUMERS' GAS COMPANY
AND SUBSIDIARIES
Total Capitalization ($000,000)



reached with 540 operating employees in the Metropolitan Toronto and surrounding areas. It provided for improved fringe benefits and wage increases totalling 24.4% over the thirty-eight month life of the contract. During the coming year new contracts must be negotiated with three locals of two unions covering a further 492 of your Company's employees. On January 1, 1971, changes were made to the Consumers' Gas retirement annuity plan upgrading it to a final earnings formula which will provide retiring employees with increased pensions more closely related to their pre-retirement earnings.

The Company, through its tuition aid plan, assists employees to further their skills and basic education. The Company is also continuing to encourage employee involvement within the community through the utilization of our human and physical resources for both the benefit of the community and the personal and business development of our staff. Among others, your employees have participated in Junior Achievement Programmes, Business Education Days under the Department of Education, the Riverdale Youth Project and in a student employment programme designed to encourage students in inner city schools to stay in school.

Outlook

There are a number of important matters which will have to be dealt with during the coming year, the results of which will have a significant effect on the operations of Consumers' Gas. Prominent among these are matters of gas costs presently before the National Energy Board. If, as is likely, the final decision by the National Energy Board increases the costs of gas, then your Company in turn will be forced to look to the Ontario Energy Board for an adjustment in its customer rates in order to recover these cost increases.

An additional area of concern to your Company during the next year will be the Canadian Tax Reform Bill C-259 which was tabled by the Minister of Finance in his budget speech of June 18, 1971, and which has long range implications to Canada as a whole and to your Company in particular. A great concern with tax reform is that it may hinder the ability of your Company and other Canadian companies to raise the capital required to develop, maintain and expand their operations. Your Company has supported a Canadian Gas Association submission to the Minister of Finance in which it is recommended that serious consideration be given to encouraging Canadians to invest in the ownership of Canadian companies and to encourage foreign capital into debt types of financing. It is also recommended that the government continue the present provision which taxes investor-owned utilities at 2 percentage points below corporations generally in order to assist these companies in attracting to Canada the sizeable capital required for their operations and to assist low income customers for whom the fuel component is a relatively higher proportion of income than for higher income persons.

During the next year your directors, management and employees will be working towards the maintenance of the present and future gas supply to the Company at competitive prices, towards maintaining the ability of the Company to borrow its cash requirements on the financial markets, towards a continuation of employment policies in which employees are granted wage increases in line with productivity, towards controlling expenditures and towards the continued successful Company exploration and development programmes. Most important, the Company will be working for the shareholders to ensure that they receive a satisfactory return on their investment as it is the shareholders who have placed their trust in your directors and your employees to help to provide the community with a vital service of the best available quality so that it will be a better community.

Your directors and management have taken a number of steps during the past year which will have a far-reaching effect on the future of your Company. Lying behind these decisions is a faith in Canada. We have attempted to depict this faith in the last section of this annual report through a pictorial display under the titles "We Believe".

Chairman of the Board

President

Consolidated Statement of Income

The Consumers' Gas Company and subsidiary companies
(Expressed in Thousands)

Years ended	September 30 1971	1970
	(note 1)	
REVENUE		
Gas sales	**$158,280**	$144,817
Other	**12,586**	11,573
	170,866	156,390
COSTS AND EXPENSES		
Gas costs	**85,413**	77,294
Operation and maintenance	**26,752**	24,107
Depreciation and depletion	**11,180**	10,114
Municipal and other taxes	**4,175**	3,865
Interest and amortization—long term debt	**12,758**	10,389
Other interest	**2,250**	2,116
	142,528	127,885
	28,338	28,505
Equity in earnings (note 2)		
Cygnus Corporation Limited	**29**	—
Tecumseh Gas Storage Limited and other companies 50% owned	**832**	635
Income before income taxes and extraordinary item	**29,199**	29,140
Income taxes (note 4)		
Current	**5,276**	7,841
Deferred	**2,362**	1,140
	7,638	8,981
Income before extraordinary item	**21,561**	20,159
Extraordinary item		
Costs of offer to purchase Union Gas shares and Ontario Energy Board hearings in connection therewith	—	367
Net income for the year	**21,561**	19,792
Dividends		
Preference shares	**919**	940
Common shares (1971—82 cents, 1970—74 cents)	**14,344**	12,933
	15,263	13,873
Net income after dividends	**$ 6,298**	$ 5.919
Basic earnings per common share (note 9)		
Income before extraordinary item	**$ 1.18**	$ 1.10
Net income	**$ 1.18**	$ 1.08

Consolidated Balance Sheet

The Consumers' Gas Company and subsidiary companies
(Expressed in Thousands)

ASSETS	September 30 1971	1970
	(note 1)	
CURRENT ASSETS		
Cash and deposits	**$ 2,614**	$11,335
Accounts receivable (including accounts receivable on merchandise finance plan, 1971—$10,160,000, 1970—$10,325,000)	**23,248**	22,470
Materials and supplies at the lower of cost and market	**4,491**	3,946
Gas stored underground at cost	**18,250**	19,647
Prepaid expenses	**2,526**	1,336
	51,129	58,734
INVESTMENTS (note 2)		
Cygnus Corporation Limited at equity in underlying net assets	**8,863**	—
Tecumseh Gas Storage Limited and other companies 50% owned at equity in underlying net assets	**5,428**	4,903
Union Gas Company of Canada, Limited at cost	**12,846**	12,846
	27,137	17,749
PROPERTY, PLANT AND EQUIPMENT at cost or redetermined value (note 3)	**458,639**	419,572
Accumulated depreciation and depletion	**67,644**	60,966
	390,995	358,606
OTHER ASSETS AND DEFERRED CHARGES		
Mortgages receivable	**6,705**	5,987
Property held for resale and other assets	**2,738**	3,368
Unamortized debt discount and expense	**2,100**	1,370
Other deferred charges	**2,968**	1,272
	14,511	11,997
	$483,772	$447,086

Approved by the Board:
J. K. MACDONALD, *Director*
J. C. McCARTHY, *Director*

	September 30 1971	1970
LIABILITIES		
	(note 1)	
CURRENT LIABILITIES		
Bank borrowings	**$ 19,947**	$ 33,267
Notes payable	**27,168**	20,537
Accounts payable and accrued	**20,999**	18,593
Accrued interest on long term debt	**2,815**	2,215
Taxes payable	—	1,643
Dividends payable October 1	**4,076**	3,729
Sinking fund requirements payable within one year	**1,715**	1,338
	76,720	81,322
LONG TERM DEBT		
Funded debt (note 5)	**229,799**	184,872
Mortgages payable	**907**	708
	230,706	185,580
DEFERRED INCOME TAXES (note 4)	**8,891**	6,529
MINORITY INTEREST IN SUBSIDIARY COMPANY	**726**	727
SHAREHOLDERS' EQUITY		
Capital stock		
Preference shares (note 6)	**16,753**	17,176
Common shares (note 7)		
Authorized—75,000,000 shares without par value		
Issued —17,495,745 shares (1970—17,486,828 shares)	**72,712**	72,578
Contributed surplus	**3,195**	3,136
Excess of net redetermined value of property, plant and equipment over depreciated book cost (note 3)	**17,576**	17,925
Reinvested earnings	**56,493**	62,113
	166,729	172,928
	$483,772	$447,086

Consolidated Statement of Reinvested Earnings

The Consumers' Gas Company and subsidiary companies
(Expressed in Thousands)

Years ended		September 30 1971	1970
		(note 1)	
Balance at beginning of year			
As previously reported	$63,062		$56,550
Adjustment for change to full cost and tax allocation accounting for exploration and development activities (note 3)	(2,526)		(1,790)
Adjustment for change in accounting for Tecumseh Gas Storage Limited and other 50% owned companies (note 2)	1,577		1,212
As restated		$62,113	55,972
Net income after dividends		6,298	5,919
Amounts realized through depreciation provisions, transferred from excess of net redetermined value of property, plant and equipment over depreciated book cost		349	349
		68,760	62,240
Deduct			
Excess of investment in shares of Cygnus Corporation Limited over equity in book value of underlying net assets at acquisition (note 2)		12,267	—
Costs of obtaining supplementary letters patent		—	127
Balance at end of year (note 8)		$56,493	$62,113

Consolidated Statement of Source and Use of Funds

(Expressed in Thousands)

Years ended	September 30 1971	1970
	(note 1)	
SOURCE OF FUNDS		
Cash flow from operations	$34,806	$30,602
Issue of funded debt	50,000	—
Issue of common shares	134	160
Miscellaneous items	(1,542)	730
	83,398	31,492
USE OF FUNDS		
Net additions to property, plant and equipment	43,569	33,051
Investment in mortgages receivable and other assets, net	482	370
Reduction in mortgages payable, net	(199)	49
Investment in shares of Cygnus Corporation Limited	20,696	—
Investment in shares of companies 50% owned	80	—
Investment in shares of subsidiary company less working capital at date of acquisition	—	338
Reduction in non-current portion of funded debt	5,073	4,856
Preference shares purchased for cancellation	423	469
Capital stock and funded debt issue costs, net	1,014	127
Dividends on preference and common shares	15,263	13,873
	86,401	53,133
DECREASE IN WORKING CAPITAL POSITION	$ 3,003	$21,641

Notes to Consolidated Financial Statements

The Consumers' Gas Company and subsidiary companies

NOTE 1 CHANGES IN ACCOUNTING PRACTICE

During the year the company adopted the equity method of recording its investment in 50% owned companies thereby including in income its interest in earnings of, rather than dividends received from, such companies.

In 1971 the company also adopted the full cost method and tax allocation basis of accounting for its gas and oil exploration and development activities. These changes are designed to better match exploration and development costs to revenue and to eliminate any fluctuations in income that might occur from this expanding programme due to differences in timing of deductions for income and tax purposes.

Adjustments reflecting these changes in accounting practice have been made retroactively and comparative figures and reinvested earnings have been adjusted accordingly. In addition, the 1970 comparative figures have been reclassified to conform with other minor changes in financial statement presentation adopted in 1971.

NOTE 2 INVESTMENTS

During the year the company agreed to acquire approximately 53% of the voting Class B shares of Cygnus Corporation Limited which represents approximately 35% of all its outstanding shares. The investment is carried in the balance sheet at the company's equity in the book value of underlying net assets at acquisition, together with the company's equity in the undistributed earnings of Cygnus since acquisition. The investment in shares of Cygnus exceeded the company's equity in the book value of underlying net assets at acquisition by $12,267,000 all of which is allocable to goodwill. Since goodwill purchased on acquisition of the Cygnus shares became merged with the already existing goodwill of The Consumers' Gas Company and its subsidiaries, which has not been recorded in the companies' accounts, it has been charged to reinvested earnings.

The company has a 50% interest in Tecumseh Gas Storage Limited, The Harrow Group Limited and Hunt Club Road Estates Limited. In 1971 the company adopted the equity method of recording its investment in companies 50% owned thereby increasing the investment in such companies previously reported at cost by its share of net earnings in excess of dividends received.

The company holds 700,000 common shares of Union Gas Company of Canada, Limited shown on the balance sheet at cost. At September 30, 1971 the market value of these shares was $9,888,000 based on the closing price of $14⅛ per share.

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the property, plant and equipment and related accumulated depreciation and depletion:

	Asset	Accumulated Depreciation and Depletion
	(Expressed in Thousands)	
Gas distribution, transmission and underground storage plant including lands, structures, pipelines, permissions, equipment, etc.	$440,227	$63,555
Natural resource properties (mainly under Lake Erie) including wells, gathering lines and exploration and development costs	12,300	703
Drilling and related equipment	2,215	888
Real estate held for development	3,552	2,401
Computer equipment	345	97
	$458,639	$67,644

All land, plant and equipment is stated at cost, with the exception of plant and equipment acquired prior to the end of the companies' 1955 fiscal years the remaining portion of which is stated at a redetermined value of $62,300,000 based on reproduction cost according to appraisals made by Stone & Webster Canada Limited as at that time.

Accumulated depreciation at the date of the appraisal was based on estimated service life. Depreciation for subsequent years has been calculated on a straight line estimated service life basis using the stated values of depreciable assets.

The increase in the depreciated value of property, plant and equipment, resulting from the 1955 redetermination (less portions of such increase realized through disposals and depreciation provisions and adjustments for the years 1956 to 1971) has been included in shareholders' equity as excess of net redetermined value of property, plant and equipment over depreciated book cost.

In 1971 the company retroactively adopted the full cost method of accounting whereby all costs of exploring for and developing gas and oil reserves, which to date have all been expended in Canada, are capitalized and form part of property, plant and equipment. Such costs include geological and geophysical expense, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. These costs are depleted using the unit of production method based on estimated recoverable reserves. Prior to this change in practice, the company capitalized the costs of exploration and development based on defined areas of interest and provided from income an allowance for unproductive areas. Unproductive areas were written off against this allowance when they were abandoned.

NOTE 4 INCOME TAXES

The companies follow the tax allocation basis of recording income taxes except in gas utility and like operations. In gas utility and like operations, where tax reductions arising from the differences in timing of deductions for income and tax purposes continue to accumulate for many years, rate and revenue structures are designed not to recover deferred taxes in current revenues and accordingly deferred taxes are not recorded in the companies' accounts. Such deferred taxes not recovered in revenues and not recorded amounted to $5,934,000 in 1971, $5,281,000 in 1970 and to an accumulated amount of $58,289,000 at September 30, 1971. The retroactive change made in 1971 to the tax allocation method in accounting for the company's exploration and development activities has been reflected in the 1970 and cumulative total figures.

The 5% investment tax credit granted by the Government of Ontario is based on investment in expansion of plant. For this reason, the company is deferring the reduction in corporate income taxes which it receives and is amortizing each year's tax reduction over a five year period to offset in part the cost of carrying such new investment during the first five years of customer build-up and consequent lower return thereon. The reduction of income tax due to this income tax credit is $550,000 in 1971 of which $110,000 has been reflected in income.

The 1971 federal tax amendments, passed or proposed, permitting capital cost allowances to be based on 115% of the cost of certain assets, removing the 3% surtax and reducing the tax rate are reflected in income as a reduction in income taxes.

NOTE 5 FUNDED DEBT

	Maturity	Outstanding 1971	1970
The Consumers' Gas Company			
First Mortgage Sinking Fund Bonds			
3¾% Series A	1974	$ 5,272,000	$ 5,612,000
5% Series B	1978	13,834,000	14,260,000
5½% Series C	1983	17,149,000	17,704,000
4.85% Series D (U.S. $13,850,000)	1985	14,867,686	14,867,686
Sinking Fund Debentures			
4¼%	1974	3,631,500	4,116,500
4¾%	1976	5,810,000	6,365,500
5¾%	1977	3,729,500	3,884,500
6½%	1979	7,373,000	7,732,000
6%	1981	10,761,000	11,229,500
5½%	1982	8,219,200	8,626,700
5¾%	1984	9,526,100	9,886,300
5⅝%	1985	18,483,000	18,989,000
8⅛%	1991	50,000,000	—
Convertible Sinking Fund Debentures			
5½% (convertible into common shares at a conversion price of $23.53 per share)	1989	60,000,000	60,000,000
St. Lawrence Gas Company, Inc.			
First Mortgage Sinking Fund Bonds			
5¼% (1971—U.S. $2,640,000, 1970—U.S. $2,712,000)	1988	2,858,592	2,936,554
		231,514,578	186,210,240
Less balance of sinking fund requirements payable within one year, included in current liabilities		1,715,453	1,337,854
		$229,799,125	$184,872,386

The outstanding principal amounts are expressed as the equivalents in Canadian funds at date of issue.

Aggregate sinking fund instalments due on the presently outstanding funded debt, amount to approximately $5,239,758 in 1973 and $5,749,362 in 1974.

NOTE 6 PREFERENCE SHARES

Authorized

Group 1— 167,528 shares (1970—171,760 shares) of $100 each, issuable in series

Group 2— 1,000,000 shares of $100 each, issuable in series

Group 3—15,000,000 convertible shares of $14 each

Outstanding, Group 1	1971	1970
46,921 shares (1970—48,310 shares) 5½% cumulative Series A, redeemable at a premium reducing from 3% to 1%	$ 4,692,100	$ 4,831,000
93,907 shares (1970—95,875 shares) 5½% cumulative Series B, redeemable at a premium reducing from 3% to 1%	9,390,700	9,587,500
26,700 shares (1970—27,575 shares) 5% cumulative Series C, redeemable at a premium reducing from 4% to 1%	2,670,000	2,757,500
	$16,752,800	$17,176,000

A retirement fund for the purchase of each class of preference shares for cancellation is required to be maintained in the amounts of $100,000 for the Series A shares, $200,000 for the Series B shares, and $60,000 for the Series C shares. These funds are required to be augmented on January 2 of each year by the amounts necessary to re-establish them at the original amounts (see Note 8).

During the year, 1,389 Series A, 1,968 Series B and 875 Series C preference shares having an aggregate par value of $423,200 were purchased for cancellation. The amount of $58,555 by which the par value exceeded the purchase price of such shares is included in contributed surplus.

NOTE 7 COMMON SHARES

During the year, 8,917 common shares were issued for $133,250 cash.

2,550,000 common shares are reserved for issue upon conversion of the 5½% convertible sinking fund debentures.

Under the terms of the Restricted Stock Option Plan approved by the common shareholders on November 19, 1956, 890,874 common shares have been set aside for purchase by key employees. At September 30, 1971, 786,774 shares had been issued under this plan and options are outstanding on 538 shares at $12.00 per share, 4,930 shares at $12.825 per share and 64,625 shares at $17.55 per share for a total of 70,093 shares. The last of these options expires on January 19, 1975. A total of 91 employees hold options under the Restricted Stock Option Plan.

NOTE 8 REINVESTED EARNINGS

Reinvested earnings includes a special account in which has been set aside, in accordance with supplementary letters patent creating the preference shares, amounts aggregating $29,000 for the purchase of preference shares for cancellation.

NOTE 9 EARNINGS PER SHARE

Earnings per share have been calculated on the weighted average number of shares outstanding during the year.

Fully diluted earnings per share (assuming conversion of the convertible debentures and exercise of stock options) are:

	1971	1970
Income before extraordinary item	**$1.11**	$1.04
Net income	**$1.11**	$1.02

NOTE 10 REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Direct remuneration of directors and senior officers amounted to $389,442 for 1971 and $372,542 for 1970.

NOTE 11 PENSION PLAN LIABILITY

The unfunded past service liability of the company and its subsidiaries according to an independent actuarial valuation made as at December 31, 1970 amounted to $2,880,000 at that date. This obligation will be satisfied and charged to operations over the next 19 years in annual instalments of $233,000. Annual contributions are made and charged to operations in the amounts estimated in the actuarial valuation to be sufficient to fund all current costs of the plan.

NOTE 12 CONTINGENT LIABILITY, COMMITMENTS AND SUBSEQUENT EVENT

The company has entered into an agreement whereby it agrees to make sufficient use of the facilities of Tecumseh Gas Storage Limited to generate the revenue required by Tecumseh to meet its obligations under Trust Indentures relating to its Series A and Series B debentures. In the event that there is any deficiency, the company will be required to purchase subordinated securities in an amount sufficient to make up the deficiency. The management of the company is of the opinion that Tecumseh will generate sufficient revenue to meet its obligations.

The company is committed to increase the purchase price of its investment in 1,357,614 Class B shares of Cygnus Corporation Limited in the following circumstances. If the average market price during the 30 day period prior to April 23, 1972 exceeds $15.03 per share, the per share price for 665,230 shares will increase by this excess. If the average market price during a 30 day period prior to certain specific happenings during the 10 years commencing April 23, 1971 exceeds $17.90 per share, the per share price for 692,384 shares will increase by one half of this excess.

Subsequent to September 30, 1971, the company agreed to acquire additional investments in the aggregate amount of $9,120,000.

Auditors' Report

Thorne,
Gunn,
Helliwell
& Christenson

CHARTERED ACCOUNTANTS

To the Shareholders of The Consumers' Gas Company

We have examined the consolidated balance sheet of The Consumers' Gas Company and subsidiary companies as at September 30, 1971 and the consolidated statements of income, reinvested earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1971 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in accounting practice referred to in note 1, on a basis consistent with that of the preceding year.

Thorne, Gunn, Helliwell & Christenson
Chartered Accountants

Toronto, Canada,
November 1, 1971.

Financial and Operating Statistics—1962-1971

Year ended September 30
(note 1)

Consolidated Statement of Income ($000's)	**1971**	1970	1969	1968	1967	1966	1965	1964	1963	1962
Gas sales										
Residential	**$ 67,325**	$ 65,177	$ 59,737	$ 58,860	$ 55,332	$ 52,432	$ 49,999	$ 42,650	$ 39,694	$ 33,457
Commercial	**46,406**	40,041	33,934	27,532	23,694	19,853	16,203	12,133	9,953	8,158
Industrial and other	**44,549**	39,599	36,086	30,982	28,386	24,898	22,665	20,715	17,228	14,527
Total gas sales	**158,280**	144,817	129,757	117,374	107,412	97,183	88,867	75,498	66,875	56,142
Other revenue	**12,586**	11,573	9,788	8,791	7,366	5,964	5,260	4,897	3,885	3,105
	170,866	156,390	139,545	126,165	114,778	103,147	94,127	80,395	70,760	59,247
Gas costs	**85,413**	77,294	68,753	59,605	54,079	49,696	44,600	36,760	31,270	25,887
Operation and maintenance	**26,752**	24,107	21,088	20,226	19,076	17,769	17,585	17,967	17,591	15,116
Amortization of conversion expense	—	—	—	—	—	—	—	—	—	902
Depreciation and depletion	**11,180**	10,114	9,259	8,541	7,793	7,018	6,363	5,803	4,563	3,697
Municipal and other taxes	**4,175**	3,865	3,725	2,958	2,875	2,514	2,278	2,129	1,786	1,360
Interest and amortization—long term debt	**12,758**	10,389	9,463	7,560	7,774	7,958	7,031	6,075	5,212	4,115
Other interest	**2,250**	2,116	1,683	1,519	1,037	351	895	1,172	375	164
	142,528	127,885	113,971	100,409	92,634	85,306	78,752	69,906	60,797	51,241
	28,338	28,505	25,574	25,756	22,144	17,841	15,375	10,489	9,963	8,006
Equity in earnings										
Cygnus Corporation Limited	**29**	—	—	—	—	—	—	—	—	—
Tecumseh Gas Storage Limited and other companies 50% owned	**832**	635	567	586	454	318	152	49	—	—
Income before income taxes and extraordinary items	**29,199**	29,140	26,141	26,342	22,598	18,159	15,527	10,538	9,963	8,006
Income taxes										
Current	**5,276**	7,841	7,440	8,373	6,507	3,446	2,416	201	1,137	251
Deferred	**2,362**	1,140	280	54	49	1,353	1,501	908	469	456
	7,638	8,981	7,720	8,427	6,556	4,799	3,917	1,109	1,606	707
Income before extraordinary items	**21,561**	20,159	18,421	17,915	16,042	13,360	11,610	9,429	8,357	7,299
Extraordinary items	—	(367)	—	—	—	1,436	809	—	—	—
Net income for the year	**21,561**	19,792	18,421	17,915	16,042	14,796	12,419	9,429	8,357	7,299
Preference share dividends	**919**	940	964	973	975	975	975	943	825	825
Net earnings available for common shares	**$ 20,642**	$ 18,852	$ 17,457	$ 16,942	$ 15,067	$ 13,821	$ 11,444	$ 8,486	$ 7,532	$ 6,474

Condensed Consolidated Balance Sheet ($000's)	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
ASSETS:										
Current assets	**$ 51,129**	$ 58,734	$ 44,189	$ 32,242	$ 28,310	$ 28,749	$ 27,511	$ 26,522	$ 26,784	$ 24,936
Investments	**27,137**	17,749	17,058	16,790	3,598	3,339	3,201	3,049	—	—
Property, plant and equipment	**458.639**	419,572	394,488	369,410	335,362	312,107	290,785	273,644	251,830	222,005
Accumulated depreciation and depletion	**67,644**	60,966	58,864	56,329	41,300	36,794	33,922	30,275	27,659	24,396
	390,995	358,606	335,624	313,081	294,062	275,313	256,863	243,369	224,171	197,609
Other assets and deferred charges	**14,511**	11,997	11,697	14,058	17,463	16,150	14,945	12,645	11,438	3,743
	$483,772	$447,086	$408,568	$376,171	$343,433	$323,551	$302,520	$285,585	$262,393	$226,288
LIABILITIES:										
Current liabilities	**$ 76,720**	$ 81,322	$ 45,136	$ 69,867	$ 32,958	$ 34,613	$ 19,351	$ 43,288	$ 36,226	$ 23,392
Long term debt	**230,706**	185,580	190,485	136,716	141,835	144,396	146,107	112,180	103,193	81,546
Deferred income taxes	**8,891**	6,529	5,389	5,109	5,055	5,006	3,653	2,152	1,244	775
Minority interest in subsidiary company	**726**	727	—	—	—	—	—	—	—	—
Shareholders' Equity										
Preference shares	**16,753**	17,176	17,645	17,925	18,000	18,000	18,000	18,000	15,000	15,000
Common shares	**72,712**	72,578	72,418	72,371	72,257	53,216	52,985	52,813	52,695	52,059
Contributed surplus	**3,195**	3,136	3,025	2,980	2,977	2,977	2,977	2,977	2,977	2,977
Excess of net redetermined value of property, plant and equipment over depreciated book cost	**17,576**	17.925	18,498	20,606	25,704	26,236	26,767	27,299	27,831	31,686
Reinvested earnings	**56,493**	62,113	55,972	50,597	44,647	39,107	32,680	26,876	23,227	18,853
	166,729	172,928	167,558	164,479	163,585	139,536	133,409	127,965	121,730	120,575
	$483,772	$447,086	$408,568	$376,171	$343,433	$323,551	$302,520	$285,585	$262,393	$226,288

Consolidated Statement of Source and Use of Funds ($000's)	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
SOURCE OF FUNDS										
Cash flow from operations	**$ 34,806**	$ 30,602	$ 27,572	$ 25,695	$ 23,892	$ 21,721	$ 19,632	$ 16,315	$ 14,020	$ 11,742
Issue of funded debt	**50,000**	—	60,000	—	—	—	36,102	11,000	23,098	9,875
Issue of preference and common shares	**134**	160	47	114	19,041	231	172	3,118	637	1,434
Miscellaneous items	**(1,542)**	730	1,052	722	(236)	1,260	1,016	82	430	589
	83,398	31,492	88,671	26,531	42,697	23,212	56,922	30,515	38,185	23,640
USE OF FUNDS										
Net additions to property, plant and equipment	**43,569**	33,051	33,087	31,476	26,542	25,468	19,858	25,001	34,772	26,798
Investment in mortgages receivable and other assets, net	**482**	370	(2,545)	(2,505)	1,344	1,157	2,314	1,336	7,254	916
Reduction in mortgages payable, net	**(199)**	49	1,163	720	(991)	(1,366)	(283)	—	—	—
Investments	**20,776**	—	—	12,846	—	—	—	3,000	—	—
Investment in shares of subsidiary company less working capital at date of acquisition	—	338	—	—	—	—	—	—	—	—
Reduction in non-current portion of funded debt	**5,073**	4,856	5,068	4,399	3,552	3,077	2,458	2,013	1,545	1,540
Preference shares purchased for cancellation	**423**	469	280	75	—	—	—	—	—	—
Capital stock and funded debt issue costs, net	**1,014**	127	1,399	—	380	—	502	177	368	66
Dividends on preference and common shares	**15,263**	13,873	13,541	12,497	10,654	8,900	7,147	6,312	5,232	4,250
	86,401	53,133	51,993	59,508	41,481	37,236	31,996	37,839	49,171	33,570
Increase (decrease) in working capital position	**$ (3,003)**	$ (21,641)	$ 36,678	$ (32,977)	$ 1,216	$ (14,024)	$ 24,926	$ (7,324)	$ (10,986)	$ (9,930)

Financial and Operating Statistics—1962-1971 (Cont'd)

(note 1)

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Gas supply—MMCF										
Natural gas purchased	**174,966**	177,342	148,742	127,180	111,132	109,094	95,721	82,303	72,355	58,401
Natural gas produced	**1,676**	1,581	764	270	374	189	70	46	25	111
Total gas supply	**176,642**	178,923	149,506	127,450	111,506	109,283	95,791	82,349	72,380	58,512
Gas deliveries—MMCF										
Sales to customers										
Residential	**53,465**	51,568	46,942	46,326	43,270	40,885	38,883	32,184	29,842	24,730
Commercial	**54,651**	46,782	38,971	30,114	25,541	21,306	16,918	11,323	8,704	6,847
Industrial and other	**70,548**	63,110	57,939	49,124	45,323	41,213	38,203	36,277	29,273	25,336
Total sales	**178,664**	161,460	143,852	125,564	114,134	103,404	94,004	79,784	67,819	56,913
Gas into storage	**26,186**	40,908	24,039	22,256	16,305	18,093	17,096	13,973	13,314	8,900
Gas out of storage	**(30,979)**	(25,457)	(20,344)	(21,321)	(20,075)	(13,521)	(16,067)	(11,659)	(9,558)	(8,059)
Use by company	**385**	374	386	231	197	178	175	159	155	132
Unbilled and unaccounted for	**2,386**	1,638	1,573	720	945	1,129	583	92	650	626
Total gas deliveries	**176,642**	178,923	149,506	127,450	111,506	109,283	95,791	82,349	72,380	58,512
Maximum daily sendout MCF	**977,900**	855,300	739,833	719,814	616,526	524,248	489,659	416,557	370,813	305,644
Minimum daily sendout MCF	**158,000**	134,400	135,107	126,715	106,047	102,031	94,827	84,437	69,333	63,113
Average daily sendout MCF	**497,088**	447,868	399,482	346,616	315,825	286,879	259,622	219,274	188,011	158,003
Degree day deficiency (Note 2)	**7,769**	8,065	7,700	7,845	7,826	7,759	8,037	7,388	7,746	7,246
Number of active customers (year end)										
Residential	**375,275**	363,365	352,597	339,145	328,793	319,029	310,739	295,032	275,178	254,020
Commercial	**30,755**	28,428	26,342	24,503	22,569	20,837	18,530	17,190	15,876	14,348
Industrial and other	**5,176**	4,876	4,630	4,178	4,149	4,087	4,043	3,734	3,561	3,101
TOTAL	**411,206**	396,669	383,569	367,826	355,511	343,953	333,312	315,956	294,615	271,469
Cost to customers										
Average revenue per MCF										
Residential	**$1.26**	$1.26	$1.27	$1.27	$1.28	$1.28	$1.29	$1.33	$1.33	$1.35
Commercial	**$ .85**	$ .86	$ .87	$ .91	$ .93	$ .93	$ .96	$1.07	$1.14	$1.19
Industrial and other	**$ .63**	$ .63	$ .62	$ .63	$ .63	$ .60	$ .59	$ .57	$ .59	$ .57
Average use per residential customer—MCF	**141.7**	141.0	132.8	135.8	130.8	126.8	125.2	110.5	111.4	100.5

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Number of shareholders										
Common	**26,168**	27,255	26,526	25,205	24,477	22,757	21,589	18,886	14,908	13,812
Preferred	**1,920**	2,032	2,116	2,218	2,263	2,290	2,350	2,401	2,411	2,449
Basic earnings per common share										
Before extraordinary items	**$1.18**	$1.10	$1.00	$ .97	$ .91	$ .78	$ .67	$ .54	$ .48	$ .42
After extraordinary items	**$1.18**	$1.08	$1.00	$ .97	$ .91	$ .87	$ .72	$ .54	$ .48	$ .42
Fully diluted earnings per common share (assuming conversion of the convertible debentures and exercise of stock options)										
Before extraordinary items	**$1.11**	$1.04	$ .97	$ .97	$ .91	$ .78	$ .67	$ .54	$ .48	$ .41
After extraordinary items	**$1.11**	$1.02	$ .97	$ .97	$ .91	$ .87	$ .72	$ .54	$ .48	$ .41
Weighted average number of common shares outstanding during the year	**17,490,886**	17,476,077	17,468,215	17,460,727	16,527,768	15,847,870	15,823,785	15,789,116	15,732,390	15,533,842
Number of employees	**2,322**	2,377	2,221	2,142	2,166	2,053	2,081	2,150	2,288	2,126
Miles of mains in use	**7,640**	7,461	7,321	7,084	6,841	6,433	6,345	6,176	5,845	5,468
Population of area served	**3,960,000**	3,862,000	3,765,000	3,682,000	3,610,000	3,490,000	3,340,000	3,210,000	3,115,000	3,019,000
Gas costs to total gas sales revenue	**54%**	53%	53%	51%	50%	51%	50%	49%	47%	46%
Operation and maintenance costs to total revenue	**16%**	15%	15%	16%	17%	17%	19%	22%	25%	26%
Income before income taxes and extraordinary items to total revenue	**17%**	19%	19%	21%	20%	18%	16%	13%	14%	14%

Note 1: In 1971 the company adopted the equity method of recording its investment in and earnings from 50% owned companies and also adopted the full cost method and tax allocation basis of accounting for its gas and oil exploration and development activities. Such changes in accounting practice are reflected in the financial statistics for the period 1962 to 1971. In addition, the above comparative figures have been reclassified to conform with financial statement presentation adopted in 1971.

Note 2: Degree day deficiency figures given are those for Toronto area. The deficiency is a measure of coldness during the heating season and is calculated by adding together the total number of degrees daily mean fell below 65° on those days when it did so.

Consumers' Gas and subsidiaries service area
Consumers' Gas areas of interest
Underwater Gas Developers–contract locations
TransCanada PipeLines
Great Lakes Gas Transmission
Home Oil North American areas of interest

We believe . . .

. . . the success of Consumers' Gas, like all successful organizations, is built on confidence. Every aspect of company operations is dedicated to this objective.

. . . confidence of the public in our people, products and service has built increasing awareness of the benefits of natural gas and a steady increase in number of customers, plus an ever-broadening usage by major markets, residential, commercial and industrial.

. . . growth, as evidenced by the financial report on the preceding pages, is based on shareholder/investor confidence. Financial return, in dividends and interest has maintained favour with the investing public, generating funds for expansion, diversification and an aggressive growth program aimed at the sound development and utilization of Canada's rich resources of energy.

. . . the future of Canada *has* to be determined by the confidence of Canadians in Canada – in the industries and business of Canada which produce jobs, products, services and profits (and tax revenues) needed to assure the growth of this country to the benefit of all.

WE BELIEVE IN CANADA! This map on the wall of our Gas Dispatch Department at Victoria Park shows the area served by Consumers' Gas and its subsidiaries, which is also indicated on the map of Canada at the left. The transmission line of TransCanada PipeLine and the major grid system of the company illustrate how natural gas from Western Canada is brought to our customers in Ontario, Quebec, and northern New York State.

We believe in Canada . . .

and its place in
the world of the 70's

ONTARIO, major area of company interest, is dynamically presented in Ontario Place, showplace of provincial growth and opportunity, visited by thousands day after day since opening, early in 1971. It is served by natural gas supplied by your company.

NEW FRONTIERS of resource development are being explored by Consumers' Gas. Chief geologist, Art Wootton inspects rock outcrop on company's exploratory license along the Moose River in James Bay lowlands, where a company-sponsored drilling program is contemplated.

QUEBEC, in the area over the Ottawa river, is served by Gazifère de Hull, where the company is in the process of considering services to Aylmer, P.Q., demonstrating its confidence in the future of this province. Ottawa Gas, another subsidiary, brings natural gas to Canada's rapidly-growing Capital city, expanding suburbs and the prosperous Ottawa Valley.

NEW YORK STATE over the Thousand Islands Bridge represents an important market for natural gas where subsidiary St. Lawrence Gas is developing the residential, commercial and industrial application of Canadian natural gas in this prosperous U.S. area of the Seaway.

We believe in Service . . .

the customer comes first!

GAS SUPPLY, vital to successful operation, means that, throughout the entire system natural gas *has* to be available when and where needed. Changes in temperature and varying load demands are instantly monitored at this Victoria Park facility. Here, a 24-hour surveillance, by the dispatcher and his assistant, monitor and control the gas supply for all our customers throughout the entire service area. Contact with other service areas is maintained, integrating total supply needs from one centralized control.

THE CUSTOMER INQUIRY DEPARTMENT at Victoria Park where more than 225,000 customer records are available for instant inspection and immediate follow-up by any one of our staff of efficient operators.

CONTACT with our fleet of service vehicles is maintained day and night throughout Metro Toronto. Service requests received from the Inquiry Department are relayed to them by phone and radio for immediate action.

SERVICE MAN, in answer to call, checks the problem to customer's satisfaction. System-wide service like this makes natural gas customers the best "salesmen" we have – a major factor in the steady growth enjoyed by your company.

We believe in better living for Canadians

IN METRO TORONTO, clean burning natural gas, replacing other fuels, has made a major contribution to cleaner air, a better environment and better living for Canadians. "If everyone today used natural gas there would be a lot less air pollution" is the basis of our company marketing policy designed to make the public aware of this important advantage of natural gas.

HOUSING DEVELOPMENTS in all Service Areas rely on natural gas for heating, water heating, air conditioning, cooking, clothes drying, outdoor barbecuing, lighting and pool heating. This trend continues as new building spreads out to meet the steady demand for new, modern homes, shopping plazas, schools . . . all of today's requirements for better living.

THE PULP AND PAPER INDUSTRY is a big user of natural gas. Here in the Abitibi/Provincial plant in Thorold, used paper is being de-inked and recycled for conversion into fine printing papers. R. L. Goodenough, Regional Manager, Provincial Gas Company and Harry Nichols of Abitibi/Provincial inspect paper handling. The paper used in this section of the Annual Report is one of the products of this mill, an important customer of Provincial Gas.

We believe in Community Development

THE ADVENT of major new communities in your company's service area is enabling us to participate in all aspects of the plan from the initial concept to the final completion of the composite community.

The involvement of your company in the planning of such communities includes the use of natural gas for industrial development, all forms of commercial undertaking, and all types of residences from single family to high rise apartment.

Meadowvale (above) and Erin Mills New Town (right) are such 20-year projects which are expected to have a combined population approaching half a million.

INDUSTRIES, conscious of their responsibility in helping to reduce air pollution, are converting to clean-burning natural gas throughout Consumers' Gas service areas. Molson's brewery in Toronto is an example of this trend so important in all community development today.

HIGH RISE—Chapel Glen, a large complex of high-rise condominium apartment suites, one of the first groups of system-built buildings constructed with an innovative method using factory fabricated building components uses roof-top gas-fired boilers for heating and water heating.

We believe in people . . .

EMPLOYEE long service records demonstrate a high degree of loyalty to the company. Our program of training, development and advancement is instrumental in maintaining a sound management/employee relationship, essential to corporate progress.

CUSTOMERS are the backbone of our business. Customer service is responsible for achieving an excellent attitude toward the company, its people and its products. Throughout the organization the importance of this is emphasized and carried out in all company programs.

SHAREHOLDERS and investors from all walks of life look to this company for a fair return and steady growth built on company performance. Such a record, year after year, based on sound principles of service to customers and the public, maintains the confidence of the investment community.

ARCHITECTS, engineers, draughtsmen represent some of the key professions and trades responsible for developing new markets and areas of opportunity for the company. Specialists in the company work with these and other individuals and groups to maintain the excellent growth record of the company.

RESEARCH is essential to the continuing development of new uses and improved applications for natural gas. At the Canadian Gas Association testing laboratories, Consumers' Gas participates in a new type of burner development as its part of an over-all, industry-wide program.

We believe in Canada's future

COMPUTERS have had an important role in customer billings, marketing and engineering in Consumers' Gas since 1963. Recently, as part of our overall corporate development plans, the Computer Data Centre now serves Consumers' and also many other customers through the time-sharing facilities of Consumers' Computer Limited. At the recent Canadian Computer Show in Toronto, Consumers' Gas subsidiaries, Consumers' Computer Limited and Business Innovations Limited along with partly owned affiliates, The Harrow Group Limited and T-Scan Limited, presented their diversified services to the business community. A feature of this display was the participation afforded visitors to use the T-Scan terminal. More than 7,000 transactions proved the interest of this important audience in your Company's computer operations.

HEARN GENERATING PLANT in Toronto in the background where the Consumers' Gas Service is being installed. Initial deliveries were made in August and full service is expected to be available in early November 1971.

OFFSHORE DRILLING in Lake Erie has produced several producing gas wells. Drilling activities are planned for other areas in Canada where preliminary seismic tests and surface prospecting indicate promise. The acquisition of Consumers' Gas interest in Home Oil enables your company to participate in the resource development needed to meet Canada's energy requirements.

We believe . . .

SINCE CANADA'S CENTENNIAL CELEBRATION in 1967, the corporate headquarters building of Consumers' Gas at 19 Toronto Street, Toronto, has displayed Canada's flag as a reminder of the company's sincere belief that the future of Canada depends on the attitude of Canadians . . . their desire . . . their loyalty . . . their enthusiasm . . . their effort . . . their determination.

This display of flags is our way of saying, "We believe", sincerely hoping that others will join us in demonstrating in *every way*, the strength of their convictions in the future of Canada and their enthusiasm for Canadian opportunity in the world today.

Corporate Information

The Consumers' Gas Company
Incorporated under the laws of the Province of Canada March 23, 1848
and continued as if incorporated under the laws of the Province of Ontario

GENERAL OFFICE
19 Toronto Street, Toronto, Ontario

REGISTRAR, TRANSFER AND DIVIDEND
DISBURSING AGENT
Canada Permanent Trust Company
1901 Yonge St., Toronto 7, Ontario

REGISTRAR AND TRANSFER AGENTS
Canada Permanent Trust Company
in St. John's, Halifax, Charlottetown, Saint John,
Montreal, Toronto, Winnipeg, Saskatoon, Calgary and Vancouver
Bankers Trust Company
16 Wall Street, New York

TRUSTEE (BONDS)
3¾% First Mortgage Sinking Fund Bonds, Series A
5% First Mortgage Sinking Fund Bonds, Series B
5½% First Mortgage Sinking Fund Bonds, Series C
4.85% First Mortgage Sinking Fund Bonds, Series D (U.S. Funds)
Canada Permanent Trust Company
320 Bay Street, Toronto

TRUSTEE (DEBENTURES)
4¼%, 4¾% 5½%, 5⅝%, 5¾%, 6% and 6½% Sinking Fund Debentures
Crown Trust Company
302 Bay Street, Toronto

TRUSTEE (DEBENTURES)
8⅛% Sinking Fund Debentures
National Trust Company, Limited
21 King Street East, Toronto

TRUSTEE (CONVERTIBLE DEBENTURES)
5½% Convertible Sinking Fund Debentures
The Royal Trust Company
Royal Trust Tower, Toronto-Dominion Centre,
Toronto, Ontario

TRUSTEE (U.S. BONDS)
5¼% First Mortgage Sinking Fund Bonds,
St. Lawrence Gas Company, Inc.
Bankers Trust Company
16 Wall St., New York

PRINTED IN CANADA
SOUTHAM MURRAY

Oil Explorations Limited and Mid Eastern Oil and Gas Limited whereby Consumers' will undertake an exploratory programme to earn a 60% working interest in a 2,931,500 acre block held by Anthony and Mid Eastern in the James Bay Lowlands area of Ontario. The exploratory programme, due to commence immediately, will be supervised by Consumers' personnel and will involve the drilling of exploratory wells as well as geophysical work on the acreage over the next three years. Drilling equipment will be supplied by Underwater Gas Developers Limited, a wholly owned subsidiary of Consumers'.

On May 4, 1971, T-Scan Limited, in which your Company holds an approximate 55% interest, received from the federal government General Adjustment Assistance Board an offer of 90% insurance on loans of up to $1.7 million in accordance with earlier agreements in principle. This company, which has developed, manufactured and marketed a terminal device for use with computers, will shortly be opening sales offices in Montreal, Ottawa and New York.

Agreement was reached on February 16, 1971 on a thirty-eight month labour contract between your Company and Local 161, International Chemical Workers Union, which represents approximately 550 service and technical employees in Metropolitan Toronto and surrounding areas, ending a prolonged strike which began November 16, 1970. Agreement on another thirty-eight month contract was reached on April 13, 1971 with Local 517, United Electrical and Radio Machine Workers of America, which represents approximately 97 employees in the Niagara Peninsula. Both settlements were similar and resulted in improvements in wages and fringe benefits to employees.

In mid-January 1971, your Company completed a $50,000,000 8⅛% Sinking Fund Debenture issue maturing February 1, 1991. The proceeds from this issue were used to reduce bank indebtedness and repay short term notes. In April 1971, Tecumseh Gas Storage Limited, which is owned jointly with Imperial Oil Limited, issued $6,000,000 8½% Sinking Fund Debentures maturing May 1, 1991. Proceeds from this issue were also used to reduce bank indebtedness. Both issues were well received by the investing public.

On April 5, 1971, announcements were made of a restructuring of the senior level of Company organization. Mr. J. C. McCarthy has been appointed President and Director of the Company; Mr. G. W. Carpenter, Executive Vice-president and General Manager—Utility Operations and a Director of the Company; Mr. F. W. Hurst, Executive Vice-President and General Manager—Corporate, Finance and Non-Utility Operations and a Director of the Company; Mr. W. M. Kelly, Senior Vice-President and Director of Marketing. Mr. Kelly continues to be responsible for the Company's overseas services. Mr. O. L Jones continues as Chairman of the Board and Chief Executive Officer of the Company.

J. C. McCARTHY
President

OAKAH L JONES
Chairman of the Board

May 26, 1971

The Consumers' Gas Company

19 Toronto Street, Toronto

Supplying natural gas to customers in

Central Ontario – through Consumers' Gas

Niagara Peninsula – through Provincial Gas

Grimsby area – through Grimsby Gas

Ottawa and Ottawa River Valley area –

through Ottawa Gas

Brockville – through Brockville Gas

Hull, Quebec area – through Gazifère de Hull

Northern New York State –

through St Lawrence Gas

participating in Canada's oil and gas exploration industry

– through
**Cygnus Corporation Limited* and
**Home Oil Company Limited*

providing services to the gas and oil industry

in drilling – through
Underwater Gas Developers Limited

in underground gas storage – through
**Tecumseh Gas Storage Limited*

and providing diversified services to the business community

in real estate rentals and development – through
Consumers' Realty Limited

in business systems – through
Business Innovations Limited

in computer applications – through
Consumers' Computer Limited and
**The Harrow Group Limited*

in computer terminals – through
**T-Scan Limited*

*partly owned companies

Printed in Canada

INTERIM REPORT MARCH 31, 1971

THE
Consumers' Gas
COMPANY

THE **Consumers' Gas** COMPANY

To our Shareholders:

For the 12 months ended March 31, 1971 basic earnings per common share were $1.13 before extraordinary item and $1.12 after extraordinary item as compared with $1.09 and $1.08 respectively last year.

Gas sales increased for both the 6 month and 12 month periods ended March 31, 1971 by approximately 7% over the previous year and total revenues increased by approximately 8% over the comparable periods a year earlier.

The weather during the 6 months ended March 31, 1971, although nearly 2% *colder* than normal, was nevertheless approximately 5% *warmer* than the previous year. Despite this weather variation, all categories of sales increased. For the 6 month period residential revenues increased by $831,000 or 2%, commercial revenues increased by $3,538,000 or 13% and industrial revenues increased by $2,662,000 or 12%. These gains in the industrial category were made during a period of serious strikes in many industries including the far-reaching strike in the automotive industry which affected many gas customers throughout our system.

Higher labour and equipment costs together with increased costs of gas and municipal taxes were again a material factor in reducing the normal profit growth of your Company. However, the reduction in income tax expense from comparable periods the year previous, due in part to the reduced income before tax but also due to other factors including the favourable tax effects of increased capital and exploration expenditures, has resulted in higher net income after extraordinary item for both the six month and twelve month periods ended March 31, 1971. Your Company has been including in current expenses the promotional and development expenses of its non-utility operations including activities relating to the sale of shared time on its modern computer installation.

Permission to construct the pipeline required to supply the Ontario Hydro's Hearn Generating Station on Toronto's waterfront has been received from the Ontario Energy Board. The 2½ mile southern portion of the line from your Company's Eastern Avenue location in Toronto to the Hearn Plant will be completed in about two weeks. Construction of the 22 mile northern section from the TransCanada PipeLines' transmission line at Victoria Square (north of Toronto) to Eastern Avenue will begin early in June. It is expected that the first of four generating units will commence using natural gas in late summer 1971.

Your Company is taking a very active part in the current hearings before the National Energy Board regarding TransCanada PipeLines' application for approval of increased charges for its gas. These hearings are taking considerable time because they will establish fundamental principles on which tariffs and rates or tolls for gas will be determined for TransCanada. Thus they will have a direct bearing on the future cost of our gas supply. We are convinced that some upward revision will be required in TransCanada's charges for our gas supply, however, in the interest of our customers and shareholders we will make every effort to assure that the increase is confined to a minimum necessary to maintain a financially healthy supplier.

On May 6, 1971, a letter was sent to all shareholders outlining the principal terms of Consumers' Gas "Agreement to Acquire a Controlling Interest in Cygnus Corporation Limited and thereby in Home Oil Company Limited". The major benefits to our investors, the Canadian public, our customers, the employees and the corporate organizations involved are listed therein. If you have not already done so, we hope you will take the time to read fully this letter. Additional copies are available from your Company's Treasurer.

An agreement has been concluded with Anthony Gas &

CONSOLIDATED INTERIM REPORT

(Unaudited) (Note 1)

1st six months of fiscal year

	6 months ended March 31 1971	6 months ended March 31 1970	12 months ended March 31 1971	12 months ended March 31 1970
Revenues				
Gas sales	$102,793,000	$ 95,762,000	$151,849,000	$141,255,000
Other operating revenue (including appliance rentals)	4,000,000	3,637,000	7,599,000	6,846,000
Interest and other income (including merchandise finance plan) and property rentals	2,018,000	1,740,000	4,816,000	3,888,000
	108,811,000	101,139,000	164,264,000	151,989,000
Costs and Expenses				
Gas costs	54,764,000	49,593,000	81,295,000	74,841,000
Operation and maintenance	14,055,000	12,335,000	27,415,000	23,146,000
Depreciation	5,419,000	4,850,000	10,300,000	9,026,000
Municipal and other taxes	2,376,000	1,817,000	4,424,000	3,921,000
Interest and other deductions	7,256,000	6,298,000	13,498,000	11,876,000
	83,870,000	74,893,000	136,932,000	122,810,000
Income before income taxes and extraordinary item	24,941,000	26,246,000	27,332,000	29,179,000
Income taxes	9,700,000	11,117,000	6,691,000	9,201,000
Income before extraordinary item	15,241,000	15,129,000	20,641,000	19,978,000
Extraordinary item				
Costs of offer to purchase Union Gas shares and Ontario Energy Board hearings in connection therewith	—	160,000	207,000	160,000
Net income for period	$ 15,241,000	$ 14,969,000	$ 20,434,000	$ 19,818,000
Basic earnings per common share (Note 3)				
Income before extraordinary item	$ .84	$ .84	$ 1.13	$ 1.09
Net income	$ .84	$ .83	$ 1.12	$ 1.08

Note 1: The information provided above for the six months of each year should not be taken as directly indicative of the results for the full fiscal year due to the weather sensitive nature of much of the Company's business.

Note 2: Operation and maintenance costs for the six month and twelve month periods ended March 31, 1970 have been reduced $287,000 from amounts shown in previously published Interim Reports in order to conform with subsequent audited statements.

Note 3: Earnings per common share are calculated on the weighted average number of shares outstanding in the periods.

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

(Unaudited)

	6 months ended March 31 1971	6 months ended March 31 1970
Source of Funds		
Addition to working capital from operations	$18,862,000	$19,488,000
Issue of funded debt	50,000,000	—
Issue of common shares	42,000	31,000
Miscellaneous items	19,000	262,000
	$68,923,000	$19,781,000
Use of Funds		
Net additions to property, plant and equipment	14,343,000	13,827,000
Reduction in mortgages payable (net)	12,000	11,000
Reduction in non-current portion of funded debt	3,430,000	3,205,000
Preference shares purchased for cancellation	168,000	193,000
Funded debt issue costs (net)	983,000	—
Dividends on preference and common shares	7,459,000	6,765,000
Investment in mortgages receivable and other assets (net)	1,388,000	947,000
	27,783,000	24,948,000
Increase (Decrease) in Working Capital Position	$41,140,000	$ (5,167,000)

"If everyone today used NATURAL GAS, there would be a LOT LESS AIR POLLUTION"